



United States
Department of
Agriculture

Farmers
Home
Administration

Washington
D.C.
20250

FmHA AN No. 2728 (1962)
January 8, 1993

SUBJECT: Farmer Programs Loan Making and Subordination
Policies for 1993

TO: State Directors, District Directors, and County
Supervisors

ATTN: Farmer Programs Chiefs

PURPOSE/INTENDED OUTCOME:

This AN has two purposes: (1) to stress that the Agency's emphasis on making quality loans and subordinations will continue in 1993; and (2) to clarify the policy for using subordinations as a source of credit.

The intended outcome is to ensure that loans and/or subordinations meet FmHA loan making standards before they are approved.

COMPARISON WITH PREVIOUS AN:

This AN replaces AN No. 2518 (1962), dated April 9, 1992, to clarify actions to be documented before approval of subordinations.

IMPLEMENTATION RESPONSIBILITIES:

LOAN MAKING POLICY. The financial condition of some FmHA borrowers and other farmers has deteriorated as a result of a variety of adverse conditions in 1991 and 1992.

There will be significant pressure on FmHA staff to disregard credit quality standards. APPROVAL OF INSURED AND GUARANTEED LOANS, SUBORDINATIONS, AND SERVICING ACTIONS MUST BE BASED UPON PLANS WHICH ARE REALISTIC AND BASED UPON THE APPLICANT'S PROVEN PRODUCTION AND FINANCIAL HISTORY. There will be cases in which assistance cannot be approved. In these cases, FmHA personnel must be firm, but also compassionate and understanding, as those borrowers make the difficult choices required in such situations.

For those borrowers who must depend on insured OL financing, particularly limited resource borrowers, County Supervisors should complete the analyses and make loan decisions in a timely manner to make sure those borrowers who receive direct OL loans do not start the

EXPIRATION DATE: December 31, 1993

FILING INSTRUCTIONS:
Preceding FmHA
Instruction 1962-A



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farming season too late to be successful. In addition, when necessary, requests for releases for essential family living and farm operating expenses must be handled expeditiously.

SUBORDINATION POLICY. The use of subordination authority is an effective method of providing funds for annual production; however, subordinations not properly handled can create additional financial risk to the Government. Because of this potential risk, approval of subordinations is subject to the following conditions:

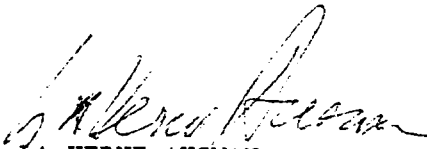
- (1) When normal income security is the only security being subordinated, any authorized official may approve the subordination in accordance with Section 1962.30 of FmHA Instruction 1962-A.
- (2) State Directors or their designee, who is someone other than the docket preparer, will review and concur in writing with all subordinations when basic security is to be subordinated.

Prior to approval of any subordination, the approval officials must make the following determinations and document them in the borrower's case file:

- (1) The subordination is for essential purposes only, necessary to continue farming operations, as set forth in FmHA Instruction 1962-A; and
- (2) The FmHA indebtedness after the subordination will be adequately secured or will not be adversely affected by the transaction.

SUMMARY. It is important that we make credit available and do so without sacrificing FmHA credit standards. The priority of funds is as follows: (1) guarantees if appropriate or (2) subordinations where necessary to permit another lender to provide credit, and (3) as a last resort, direct loans. I encourage you to keep this in mind as you enter into the 1993 loan season, and to review previous ANs regarding credit quality, especially FmHA AN No. 2492 (1924), "Credit Quality and the Utilization of Credit and Financial Analysis Worksheets and Techniques on Insured Farmer Programs Loans."

THIS AN MAY NOT BE REVISED AND REISSUED BY STATE DIRECTORS WITHOUT PRIOR APPROVAL BY THE ASSISTANT ADMINISTRATOR, FARMER PROGRAMS, UNLESS MODIFICATION IS NECESSARY TO COMPLY WITH STATE LAW.


LA VERNE AUSMAN
Administrator



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